State of South Carolina

Office of the Governor

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The Honorable André Bauer
President of the Senate
State House, 1st Floor, East Wing
Columbia, South Carolina 29202

Mr. President and Members of the Senate:

I am hereby returning without my approval S. 852, R-347. I am vetoing this bill because it will increase the current $4.2 billion debt burden on the South Carolina Retirement System, which from 1999 to 2004 increased its debt by 320 percent, taking the system from strong financial soundness to well beyond its constitutional debt limit when taking cost-of-living increases (COLAs) into account.

Sections 1, 2 and 3 of this legislation allow individuals to purchase service credit in the South Carolina Retirement System for work performed as a student employed by a postsecondary public technical college, junior college, or public four-year and postgraduate institution of higher learning. Section 4 provides that retirement contributions are only due on forty-five days of termination pay for unused annual leave. I am vetoing this legislation because Sections 1, 2, and 3 will increase the financial liability of the system by expanding the purchase of service credit. I do not object to Section 4, which simply reflects current law regarding termination pay for unused annual leave.

The Retirement System has indicated that expanding the purchase of service credit to college work-study students would not have an adverse financial impact; but its analysis is based on the assumption that its current formula to purchase service credit is actuarially sound. We believe the system's assumption is flawed because it does not take into consideration future COLAs, even though the system has consistently paid COLAs over the past 35 years.

The financial health of the Retirement System is based on actuarial valuations of the future liabilities and future assets of the system based on a variety of assumptions. The unfunded liability of the system is currently $4.2 billion. Governmental accounting standards require that the unfunded portion of future liabilities have to be amortized within 30 years. The Retirement System's unfunded liability has skyrocketed from a 2-year unfunded liability in 1999 to 27 years today. Meaning, it will now take 27 years for the state to payoff the Retirement System's $4.2 billion unfunded future liabilities.

The current 27-year unfunded liability does not take into consideration future COLAs. State law currently requires the payment of COLAs as long as the Retirement System can absorb the costs within its ability to take on additional unfunded debt. COLAs increased the system's unfunded liability by $149 million in 2002, $278 million in 2003, and $211 million this year. Current projections show the Retirement System being unable to pay COLAs as early as 2006. The Retirement System estimates the future cost of an average 3 percent COLA increase would add an additional $9 to $11 billion dollars in unfunded liabilities.

The unfunded liability of the Retirement System has reached a point where we question whether expanding the purchase of service credit is prudent, especially with the system's actuaries not including COLAs as a future liability of the system. Clearly, if COLAs were factored into any valuation of the Retirement System, the current cost of purchasing service credit would not be sufficient to offset the system's increased future liability.

For these reasons, I am vetoing S. 852, R-347 and returning it to you without my signature.

Sincerely,

Mark Sanford